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# Message Text

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20
ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PA-01 PRS-01 /076 W
---------- 117478
R 242316Z FEB 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 3202
INFO TREASURY DEPT WASHDC

C O N F I D E N T I A L MEXICO 2412

E.O. 11652: GDS
TAGS: EFIN, MX
SUBJECT: ECONOMIC OUTLOOK FOR 1976

REF: MEXICO A-38, 2/25/76

1. BELOW IS SUMMARY OF REF, POUCHED ON FEB 24.

2. THE CENTRAL BANK AND FINANCE MINISTRY HAVE CHARTED A TIGHT COURSE FOR THE MEXICAN ECONOMY IN 1976, ABANDONING THE POLICY OF RECENT YEARS WHEREBY PUBLIC SECTOR SPENDING INCREASES STIMULATED ECONOMIC GROWTH. INSTEAD, PUBLIC SECTOR SPENDING IS PROJECTED TO DECLINE IN REAL TERMS; AND STIMULUS, IF ANY, IS TO COME FROM EXTERNAL DEMAND AND INCREASED PRIVATE SECTOR INVESTMENT. THE PURPOSE IS TO REDUCE INFLATIONARY PRESSURES AND THE CURRENT ACCOUNT DEFICIT THEREBY AVOIDING THE NEED TO DEVALUE THE PESO. THIS PROGRAM COULD BE UPSET BY POLITICAL FACTORS. THE LAST YEAR OF A PRESIDENTIAL TERM IS OFTEN MARKED BY LARGE BOOSTS IN PUBLIC SECTOR SPENDING. ALSO, THIS PRESIDENT HAS SHOWN A MARKED PROCLIVITY FOR TRYING TO SOLVE MEXICO'S MANY PROBLEMS THROUGH PUBLIC SECTOR SPENDING. THE FIRST SIGN THAT THE PROGRAM PLANNED BY THE FINANCE MINISTRY MAY RUN INTO PROBLEMS WAS THE MINIMUM WAGE INCREASES
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EFFECTIVE JANUARY 1. THESE ARE BOUND TO ADD TO INFLATIONARY

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PRESSURES AND APPEAR TO EXCEED THE COST OF LIVING ICREASE
IN THE PERIOD SINCE MINIMUM WAGES WERE LAST RAISED. SHOULD
PUBLIC SECTOR SPENDING EXCEED THE BUDGET BY 20 PERCENT AS
IT DID IN 1975, MEXICO'S ECONOMIC PROBLEMS WILL BE AGGRAVATED.
THE CURRENT ACCOUNT DEFICIT WILL WIDEN RATHER THAN NARROW,
INFLATION WOULD WORSEN, AND MEXICO COULD BE FORCED TO ADOPT
EARLY IN 1977, A STRINGENT STABILIZATION PLAN. THE GOM WOULD
LIKE TO AVOID THIS AS WELL AS A DEVALUATION WHICH IS BECOM-
ING A GROWING POSSIBILITY AS PRICES CONTINUE TO RISE
FASTER IN MEXICO THAN IN THE U.S.

3. TO THE DEGREE THE FINANCE MINISTRY PLAN WORKS, U.S.
EXPORTS TO MEXICO WILL BE AFFECTED. IT IS POSSIBLE THAT
THEY WILL NOT INCREASE IN VALUE TERMS FROM 1975 TO 1976.
SHOULD PUBLIC SECTOR SPENDING GET OUT OF CONTROL ONCE MORE,
MEXICO MAY BE FACED WITH A LARGE RUN ON THE PESO, MAKE USE
OF ITS SWAPS WITH THE FEDERAL RESERVE BANK OF NEW YORK, AND
THE TREASURY, AND REQUEST ADDITIONAL ASSISTANCE. ON THE OTHER
HAND, ANOTHER YEAR OF SLOW GROWTH COULD AGGRAVATE POLITICAL
PROBLEMS EMANATING FROM A LARGER NUMBER OF UN-AND UNDER-
EMPLOYED, AND GENERATE ADDITIONAL ILLEGAL MIGRATION TO THE
U.S.
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